

1350.0 - Australian Economic Indicators, Apr 2006

ARCHIVED ISSUE Released at 11:30 AM (CANBERRA TIME) 31/03/2006

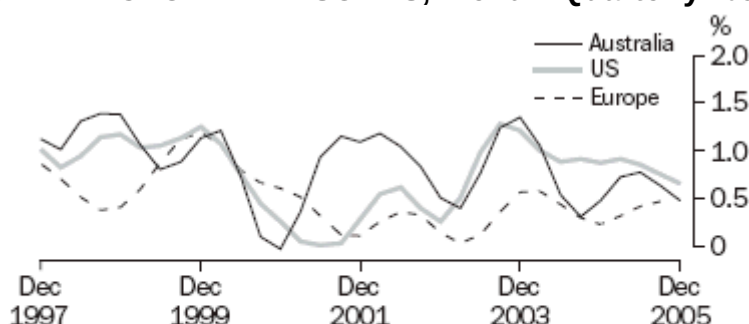
(This article was published in the April 2006 issue of **Australian Economic Indicators, Australia** (ABS Catalogue Number 1350.0))

The Quarterly Review refers to trend estimates unless otherwise specified.

OVERVIEW

Australia's December quarter trend GDP growth of 0.5% is comparable to the trend growth of 0.5% in the Euro area, but is still below the US trend growth of 0.7% (graph 1). In the fourth quarter of 2005 most developed countries were showing a slowdown in growth rates of GDP, with the only exception being Japan whose growth rate was 1.4%. Australian growth during the December quarter 2005 was driven by private business investment, government consumption and household consumption with offsets from net exports and changes in inventories.

**1 INTERNATIONAL ECONOMIC GROWTH,
GDP CHAIN VOLUME MEASURES, Trend—Quarterly %change**

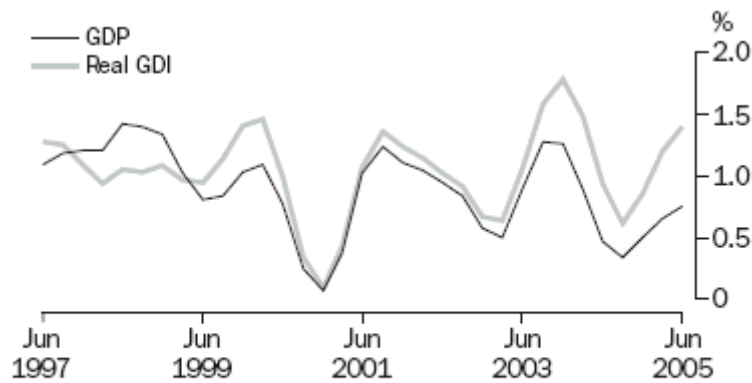


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0 & Organisation for Economic Co-operation and Development.

Through the year to December quarter 2005, trend real gross domestic income (GDI) increased by 5.2% compared with an increase of 2.7% in trend volume GDP. Real GDI measures the purchasing power of the total incomes generated by domestic production, taking changes in the terms of trade into account. The chain volume measure of GDP is a measure of the volume of production within Australia. However, the total real income that Australians derive from this production also depends on the volume of imports able to be purchased from the proceeds of Australia's exports to the rest of the world. Over the past year, Australia's terms of trade have increased by 13.1%, so a given volume of exports will enable Australians to purchase a higher volume of imports than was the case in December quarter 2004. See also graph 21 below.

2 GDP AND REAL GDI, Chain Volume Measures—

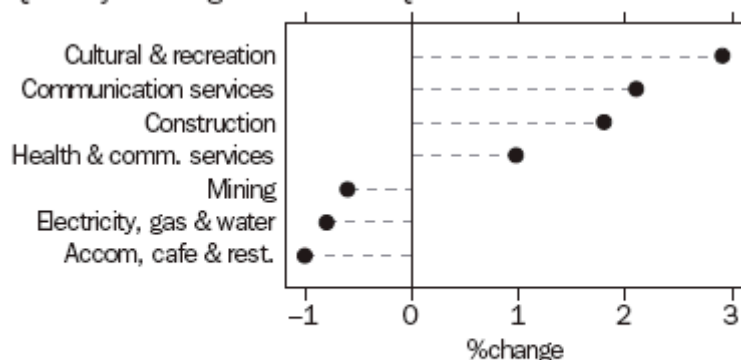
Trend: Quarterly % change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The chain volume measures of the Australian economy at industry level for the December quarter 2005 showed a mixed picture (graph 3). The strongest quarterly increases were from cultural and recreational services (up 2.9%), communication services (up 2.1%), construction (up 1.8%) and health and community services (up 1.4%). Negative contributors to growth in GDP were accommodation, cafes and restaurants (down 1.0%), electricity, gas and water (down 0.8%) and mining (down 0.6%).

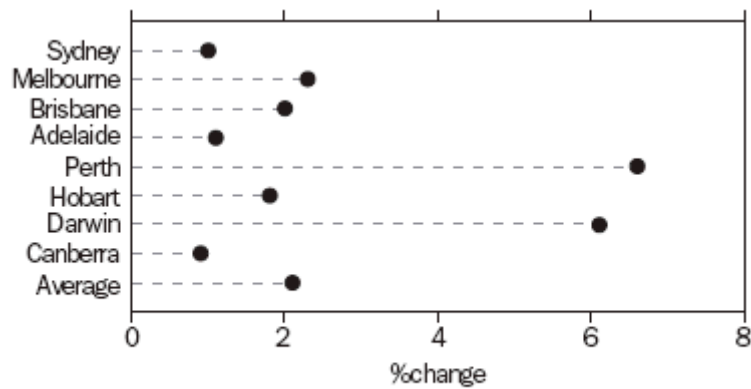
3 GROSS VALUE ADDED BY INDUSTRY, Trend— Quarterly %change—December Qtr 2005



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The price index for established houses (preliminary), covering transactions in detached residential dwellings on their own block of land, rose by 2.1% in the December quarter 2005 (graph 4) for the eight Australian capital cities. The most prominent price increases were recorded for Perth and Darwin. It is also notable that Sydney, after experiencing consecutive price decreases for the previous three quarters, recorded a 1.0 % rise. On an annual basis, the Australia-wide house prices increased 2.3% from December 2004 to December 2005. These figures are subject to revision when further data become available. For information on improvements made to the house price index series and associated measurement issues, see the ABS Information Paper: Renovating the Established House Price Index (cat. no. 6417.0).

4 ESTABLISHED HOUSE PRICES, PRELIMINARY, Quarterly %change—December quarter 2005

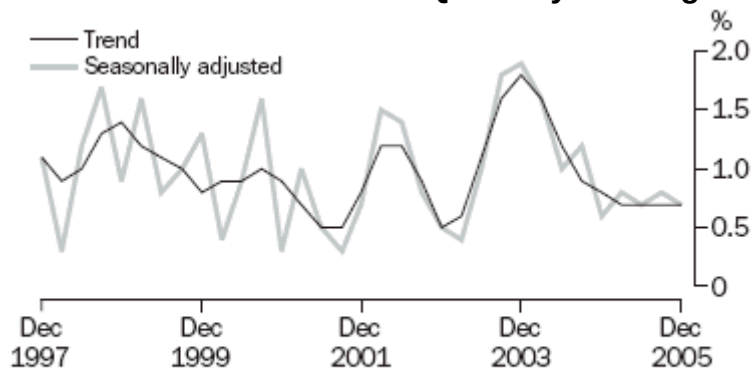


Source: House Price Indexes: Eight Capital Cities, cat. no. 6416.0

CONSUMPTION

In the December quarter 2005 the chain volume measure of household final consumption expenditure (HFCE) grew by 0.7% in both trend and seasonally adjusted terms (graph 5). The strongest trend growth rates were recorded for alcoholic beverages, recreation and culture, hotels, cafes and restaurants (all three components up 1.4%), and insurance and other financial services (up 1.2%). There were only two components which fell; operation of vehicles (down 1.4%) and purchase of vehicles (down 1.2%).

5 HOUSEHOLD FINAL CONSUMPTION EXPENDITURE, Chain volume measure—Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

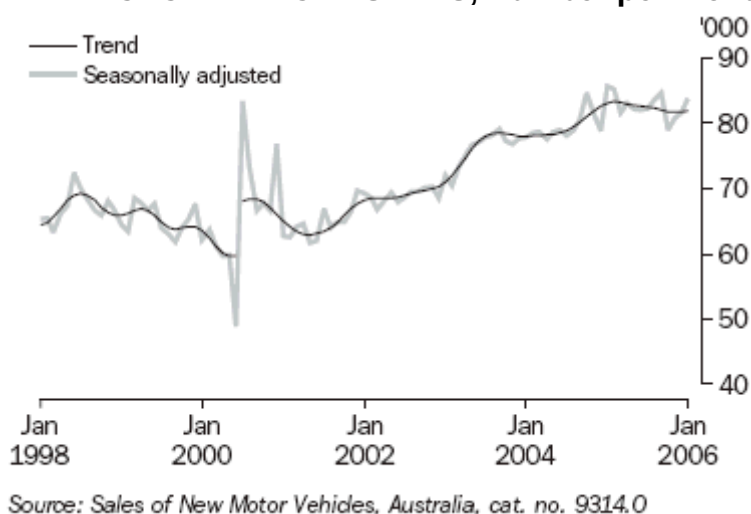
In the December quarter 2005, retail turnover rose by 0.3% in trend chain volume terms, following an increase of 0.4% for the September quarter 2005. Four of the seven industries showed increases this quarter, with hospitality and services up 1.3%, household good retailing up 0.8%, food retailing up 0.7% and clothing and soft good retailing up 0.3%. Other retailing fell by 2.3%, recreational good retailing fell 1.3% and department stores fell by 0.7%.

6 RETAIL TURNOVER, Chain volume measure, Trend—Quarterly %change



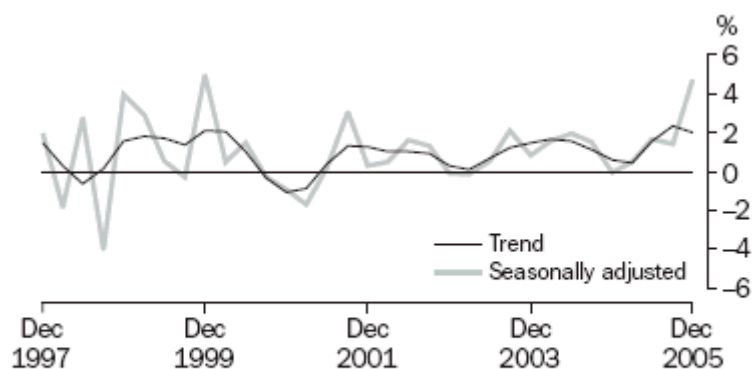
The trend estimate for sales of new motor vehicles (excluding motor cycles) increased by 0.2% from December 2005 to 81,839 in January 2006 (graph 7). This is the first month since February 2005 in which the trend estimate has recorded an increase. Compared with December 2005, small increases were recorded in January 2006 for sales of passenger vehicles (0.2%) and other vehicles (0.2%), with no movement for sports utility vehicles. Most states and territories recorded slight increases in the trend estimate for total sales of new motor vehicles in January 2006 compared with December 2005, with the exception of Tasmania and the Australian Capital Territory which recorded decreases of 0.7% and 1.1% respectively. When compared with January 2005 however, the trend estimate for total sales showed a 1.6% decrease.

7 NEW MOTOR VEHICLE SALES, Number per month



The trend chain volume measure of national general government final consumption expenditure (GFCE) excluding defence rose 2.0% in the December quarter 2005 (graph 8) and 6.5% between December 2004 and December 2005. The trend chain volume measure of defence final consumption expenditure grew by 1.6% in the December quarter and by 0.5% between December quarter 2004 and December quarter 2005.

8 GOVERNMENT FINAL CONSUMPTION EXPENDITURE, (Excluding defence) Chain volume measure—Quarterly %change

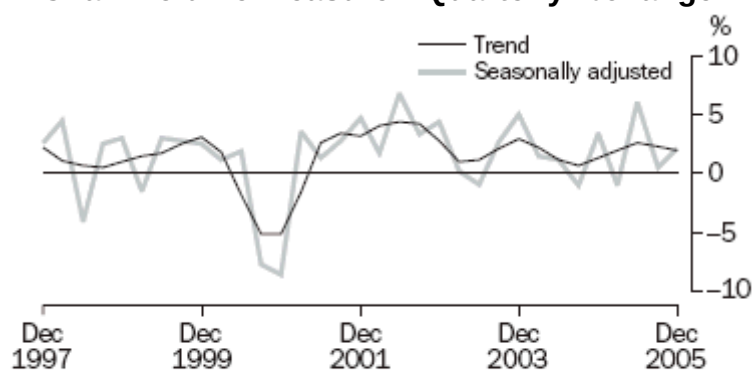


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

INVESTMENT

The trend chain volume measure of total gross fixed capital formation (GFCF) rose by 2.0% in the December quarter 2005, following solid rises in the previous eighteen quarters (graph 9). The trend is now 9.2% above that of the December quarter 2004.

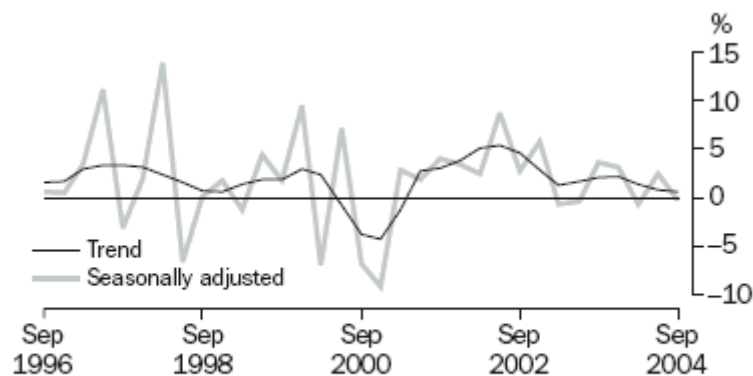
9 TOTAL GROSS FIXED CAPITAL FORMATION, Chain volume measure—Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The trend chain volume measure of private gross fixed capital formation rose by 2.3% in the December quarter 2005 (graph 10), while public gross fixed capital formation fell by 0.2%. In the private sector, dwellings fell by 0.9%, non-dwelling construction rose by 3.5%, and machinery and equipment rose by 4.5%. Livestock rose by 0.3%, intangible fixed assets rose by 1.1% and ownership transfer costs fell by 1.9%. For public GFCF, public corporations rose by 3.2%, national general government rose by 1.7%, and state and local general government fell by 4.2%.

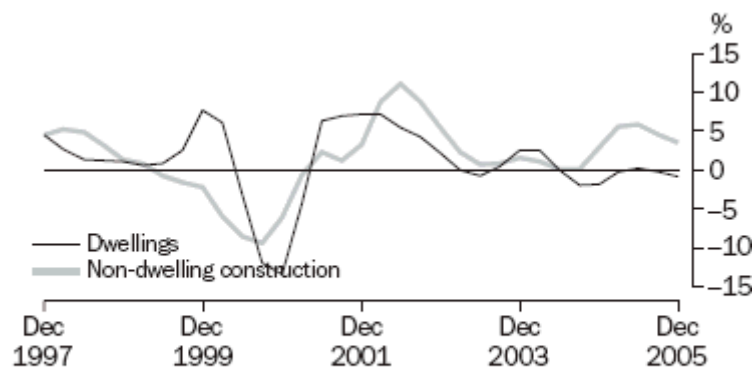
10 PRIVATE GROSS FIXED CAPITAL FORMATION, Chain volume measure—Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Pr

Trend total GFCF for private dwellings fell by 0.9% in the December quarter 2005 (graph 11). New and used dwellings fell by 1.6% while alterations and additions remained unchanged. Expenditure on non-dwelling construction rose by 3.5%. There was a strong 5.8% rise in new engineering construction and a 1.0% rise in new building.

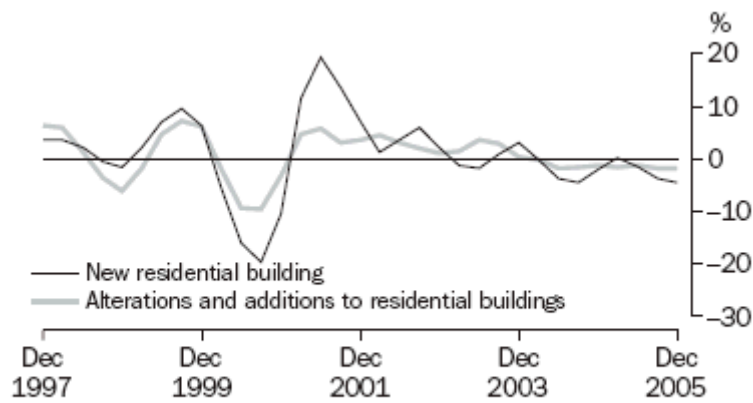
11 PRIVATE GFCF: SELECTED COMPONENTS, Chain volume measure, Trend—Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The trend chain volume measure of the value of building approvals fell by 0.6% in the December quarter 2005. There was a 1.8% fall in total residential building while non-residential building rose by 2.1%. New residential building fell 2.0% while alterations and additions to residential buildings fell 1.2% (graph 12). The fall in new residential building was due to a 1.6% fall in new houses and a fall of 2.8% in new other residential building. Some building approvals do not proceed, and there is a lag of a few months until work occurs for those that do.

12 VALUE OF RESIDENTIAL BUILDING APPROVALS, Chain volume measure, Trend—Quarterly %change

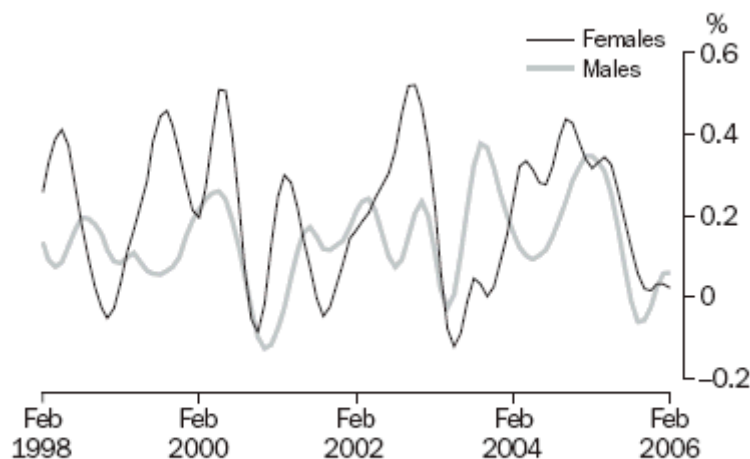


Source: *Building Approvals, Australia*, cat. no. 8731.0.

LABOUR MARKET

In February 2006 both the participation rate and the unemployment rate remained steady. In February 2006, the trend total number of employed persons rose marginally from the previous month to 10,041,200. Female employment rose marginally to 4,511,900 while male employment rose marginally to 5,529,200 (graph 13). Full-time employment rose 0.1% to 7,172,200 while part-time employment fell 0.2% to 2,868,900.

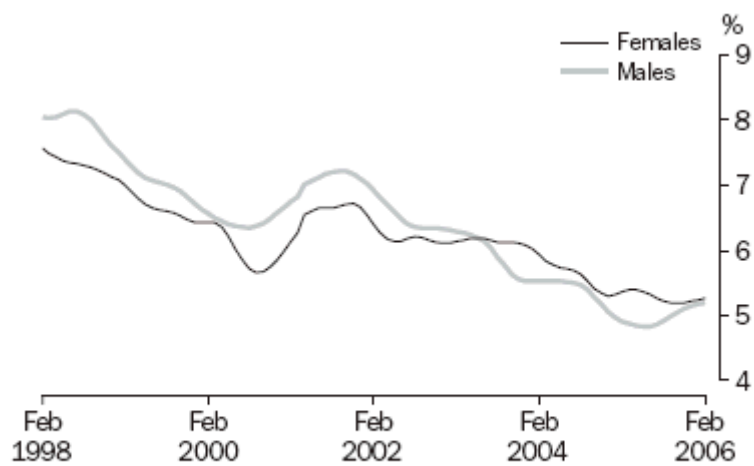
13 EMPLOYED, Trend—Monthly %change



Source: *Labour Force, Australia*, cat. no. 6202.0.

In February 2006, the trend unemployment rate remained steady at 5.2%. The female unemployment rate rose 0.1 percentage point to 5.3% while the male unemployment rate remained steady at 5.2% (graph 14). In February 2006 the number of persons looking for full-time work rose 0.5% to 393,400 and the number of persons looking for part-time work rose 0.4% to 160,800.

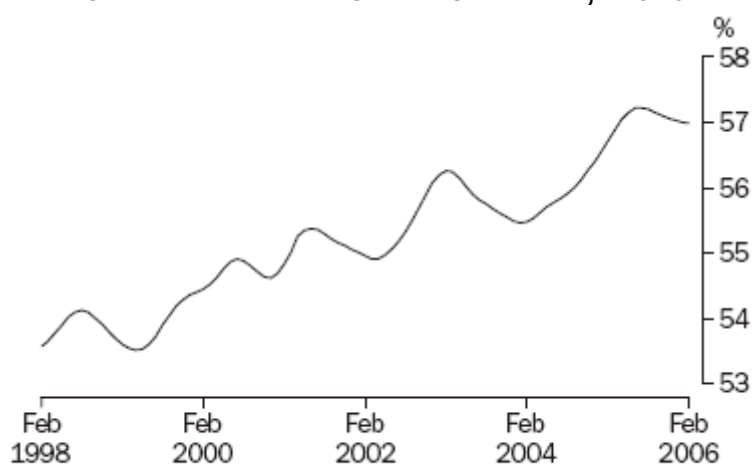
14 UNEMPLOYMENT RATE, Trend



Source: Labour Force, Australia, cat. no. 6202.0.

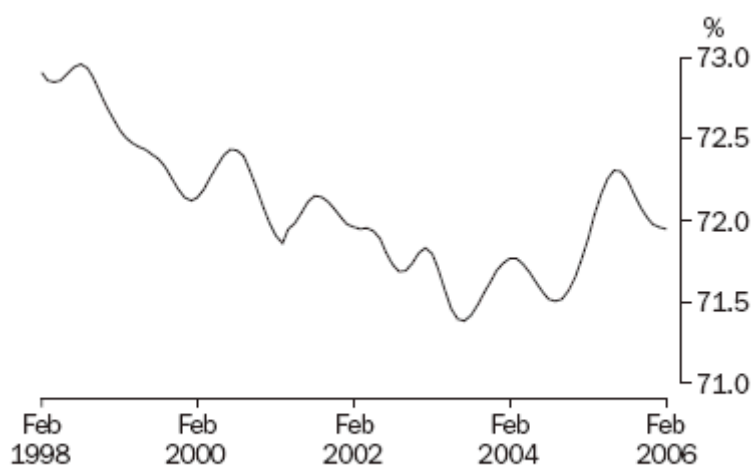
In February 2006, the overall participation rate remained steady at 64.4%. The female participation rate remained at 57.0% (graph 15) while the male participation rate remained at 72.0% (graph 16).

15 FEMALE PARTICIPATION RATE, Trend



Source: Labour Force, Australia, cat. no. 6202.0.

16 MALE PARTICIPATION RATE, Trend



Source: Labour Force, Australia, cat. no. 6202.0.

The trend chain volume measure of market sector GDP per hour worked rose by 1.0% in the December quarter 2005 (graph 17). Hours worked in the market sector fell by 0.7% and market sector GDP rose by 0.4%. As a measure of labour productivity, market sector GDP per hour worked is also affected by the contribution of capital and other factors to changes in production as well as changes in the overall quality of labour input. Further details about this effect can be found in the feature article 'Estimates of productivity in the Australian national accounts', (cat. no. 5206.0 September 2005 issue).

17 LABOUR PRODUCTIVITY (PROXY) TREND, GDP Market sector, Chain volume measure—Quarterly %change



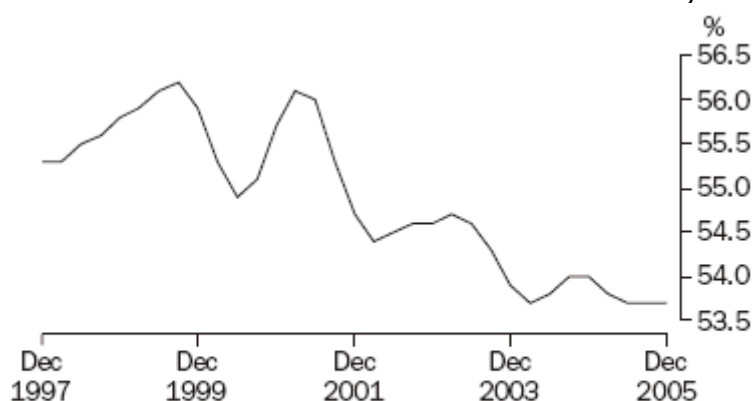
Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

INCOME

Total factor income is derived by summing compensation of employees, gross operating surplus and gross mixed income.

In the December quarter 2005, the wages share of total factor income remained 53.7% (graph 18). Compensation of employees rose by 1.8%, reflecting a rise of 1.6% in average earnings and a 0.2% rise in the number of wage and salary earners.

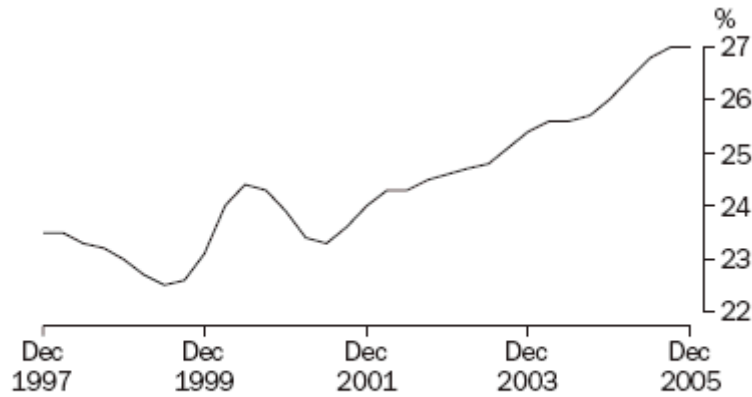
18 WAGES SHARE OF TOTAL FACTOR INCOME, Trend



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

In the December quarter 2005, the profits share of total factor income was 27.0% (graph 19). This profit measure comprises the gross operating surplus (GOS) of financial and non-financial corporations, which rose by 1.9% in the December quarter (1.4% in seasonally adjusted terms), following a rise of 2.7% in the September quarter.

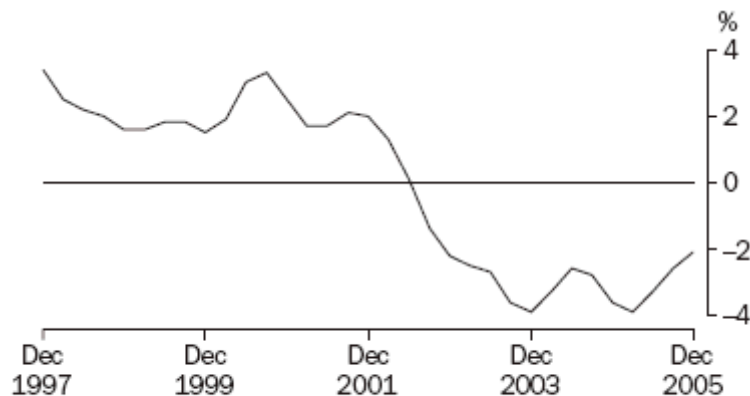
19 PROFITS SHARE OF TOTAL FACTOR INCOME, Trend



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

The household saving ratio was negative in the December quarter 2005, implying that household consumption was greater than household disposable income. In trend terms the ratio was -2.1% in the December quarter 2005 (graph 20). This ratio is being driven by expenditure growing faster than disposable income. Caution should be exercised in interpreting the household saving ratio in recent years, because major components of household income and expenditure may still be subject to significant revisions. The impact of these revisions on the saving ratio can cause changes in the apparent direction of the trend.

20 HOUSEHOLD SAVING RATIO, Trend

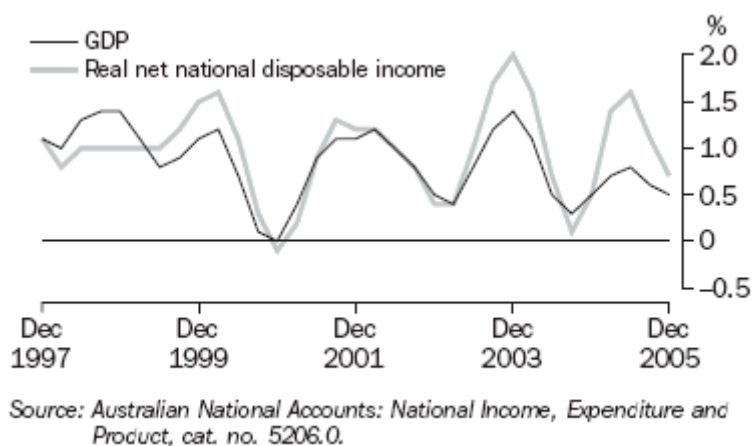


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0.

During the December quarter 2005 trend real net national disposable income rose by 0.7% , compared to the increase in the trend chain volume measure of GDP of 0.5% (graph 21). Real net national disposable income (RNNDI) is a broad measure of economic well-being. This measure adjusts the chain volume measure of GDP for the terms of trade effect, real net incomes from overseas and consumption of fixed capital.

For further details about RNNDI see the feature article in the April 2002 issue of AEI.

21 GDP AND REAL NET NATIONAL DISPOSABLE INCOME, Chain volume measure, Trend—Quarterly %change

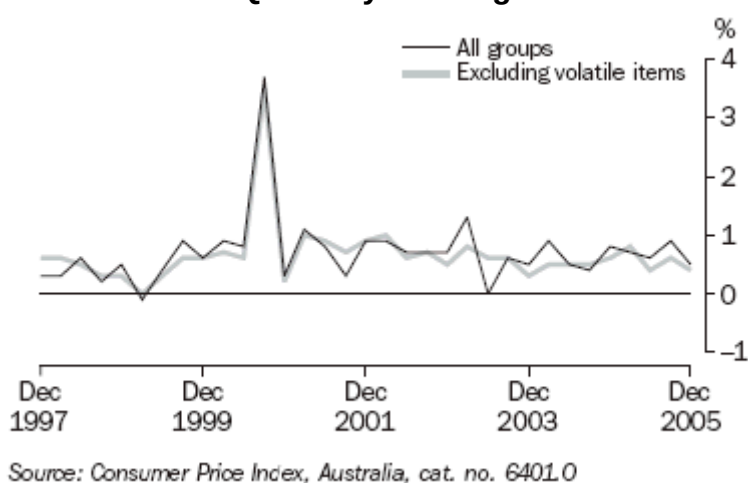


CONSUMER PRICES

This commentary refers to original estimates unless otherwise specified.

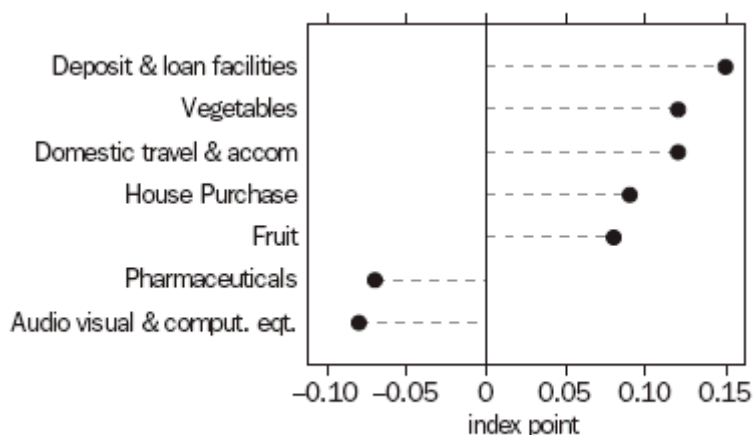
In the December quarter 2005, the all groups consumer price index (CPI) rose by 0.5%, compared with a rise of 0.9% in the September quarter 2005 (graph 22). The major contributors at the group level were food (up 1.8%), housing (up 0.6%), financial and insurance services (up 1.5%) and household contents and services (up 0.7%). Transportation (down 0.5%) and health (down 1.1%) provided offsetting price decreases.

22 CONSUMER PRICE INDEX, Quarterly %change



Graph 23 shows the major contributors to the change in the CPI for the December quarter. The 2.3% rise in deposit and loan facilities contributed 0.15 index points to the 0.5% rise in the CPI. This rise was due to increases in some banking charges, such as account keeping and transaction fees. The 6.8% price rise in vegetables contributed 0.12 index points to the rise in the CPI and was due to adverse weather in major growing areas affecting supplies, particularly of potatoes, broccoli, onions and tomatoes. Poor weather also impacted on supplies of pears, apples and oranges, pushing fruit prices up overall.. The fall in the net cost of pharmaceuticals (-4.6%) was a direct result of the cyclical effect of the Pharmaceutical Benefits Scheme safety net.

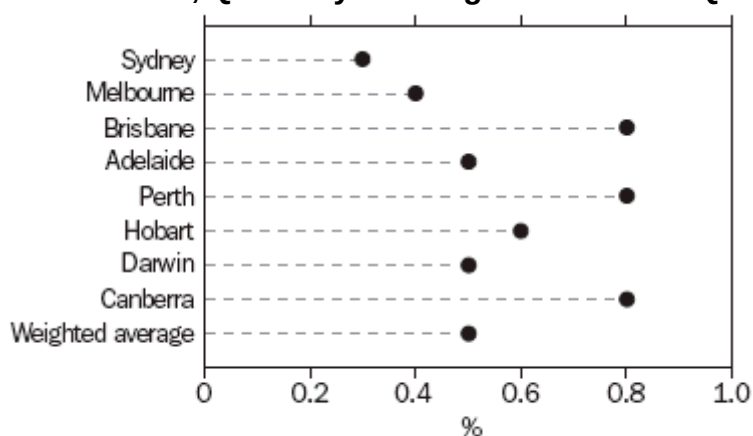
23 MAJOR CONTRIBUTIONS TO CHANGE IN THE CPI, Quarterly contribution to change— December Qtr 2005



Source: Consumer Price Index, Australia, cat. no. 6401.0.

At the all groups level, the December quarter 2005 CPI rose in all capital cities (graph 24). The increases ranged from 0.3% in Sydney to 0.8% in Brisbane, Perth and Canberra. Canberra recorded the largest rises in food, household contents and services and financial and insurance services. Perth had the largest increase in housing costs, at almost four times the weighted average of eight capital cities. Brisbane recorded increases above the weighted average of eight capital cities in food, alcohol and tobacco, housing, household contents and services and recreation. Sydney recorded movements that were below the weighted average of eight capital cities in a number of categories including alcohol and tobacco, clothing, transportation and financial and insurance services.

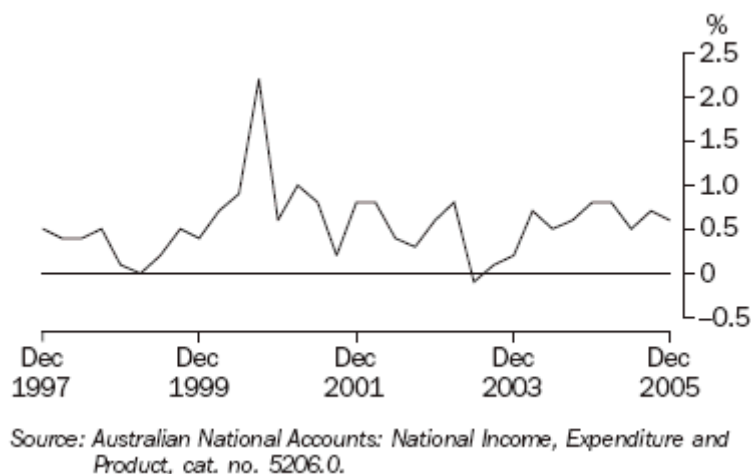
24 ALL GROUPS, Quarterly %change—December Qtr 2005



Source: Consumer Price Index, Australia, cat. no. 6401.0.

The national accounts domestic final demand chain price index rose by 0.6% in the December quarter 2005, following a rise of 0.7% (revised) in the September quarter (graph 25). The domestic final demand chain price index is a broad based measure of price change and comprises final consumption and capital expenditure, for both private and public sectors. The chain price index for final consumption expenditure rose by 0.6% (by 0.4% for households and 1.2% for general government), while the chain price index for gross fixed capital formation rose by 0.6% (by 0.6% for private and by 0.4% for public).

25 DOMESTIC FINAL DEMAND CHAIN PRICE INDEX, Quarterly %change

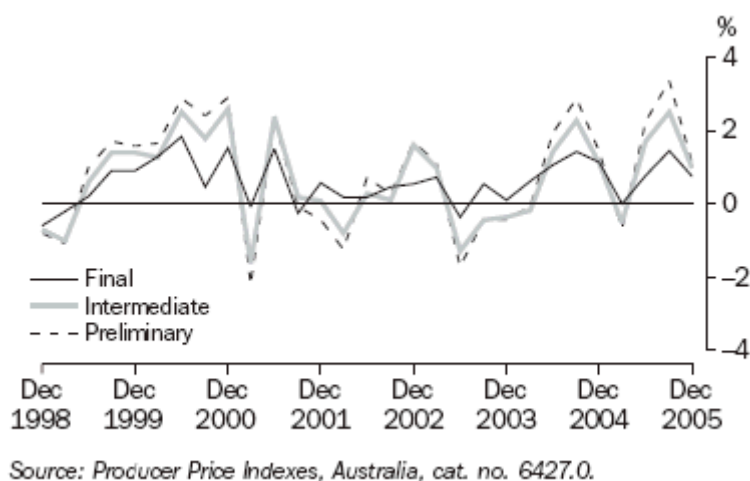


PRODUCER PRICES.

This commentary refers to original estimates unless otherwise specified.

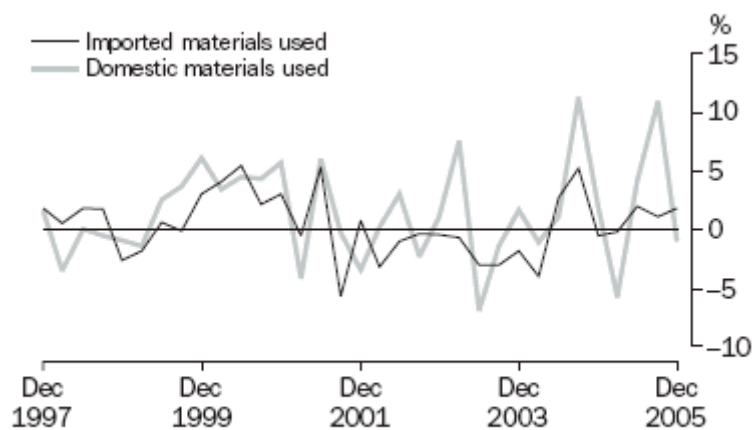
The final (Stage 3) stage of production price index rose 0.8% in the December quarter 2005 (graph 26). For the final (Stage 3) index, there was a rise of 0.9% in domestic commodities mainly due to increases in building construction, other agriculture, and meat and meat product, and a 0.1% rise in imported commodities due to price rises for capital goods. The intermediate (Stage 2) stage of production index rose by 1.0%, due to a rise of 1.0% in the domestic component and a 1.1% rise in the imports component. The preliminary (Stage 1) stage of production producer price index rose by 1.1%, due to a rise of 1.1% in the domestic component and a rise of 1.4% in the imports component.

26 STAGE OF PRODUCTION INDEXES, Quarterly %change



In the December quarter 2005, the price index of materials used in manufacturing industries rose by 0.5% (graph 27). There was a 1.0% fall in domestic materials and a 1.9% rise in imported materials. Increases in the price of imported crude oil, domestically sourced copper oxides and gold, and imported plastic materials were the main contributors to the quarterly result. Price falls for sheep and lambs, whole milk, domestically sourced crude oil and cattle and calves provided some offsets to these increases.

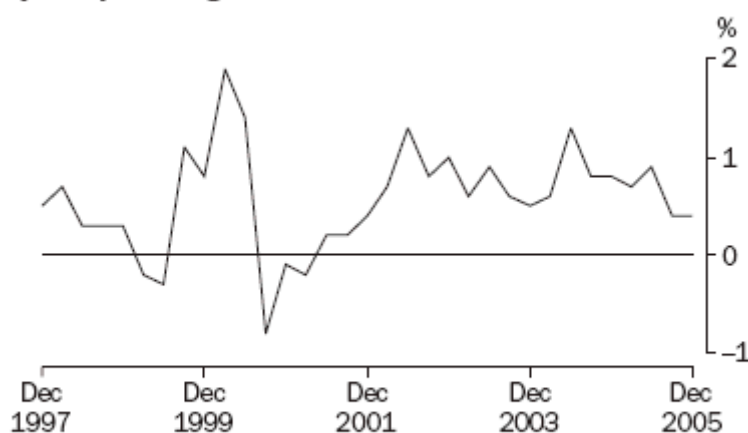
27 MANUFACTURING INDUSTRY PRICE INDEXES, Quarterly %change



Source: Producer Price Indexes, Australia, cat. no. 6427.0.

The price index for materials used in house building rose by 0.4% in the December quarter 2005 (graph 28), reflecting price increases for a range of materials. The most significant contributors to the increase were joinery, in-situ concrete and paint and other coatings. Offsetting price decreases were recorded for boarding and lining, and clay bricks and concrete roof tiles. Increases were recorded in four of the state capitals, ranging from 0.1% in Adelaide to 0.6% in Brisbane. Sydney recorded no movement, while Hobart decreased by -1.3%. Through the year to December quarter 2005, the price index for materials used in house building rose 2.3%.

28 MATERIALS USED IN HOUSE BUILDING, Quarterly %change

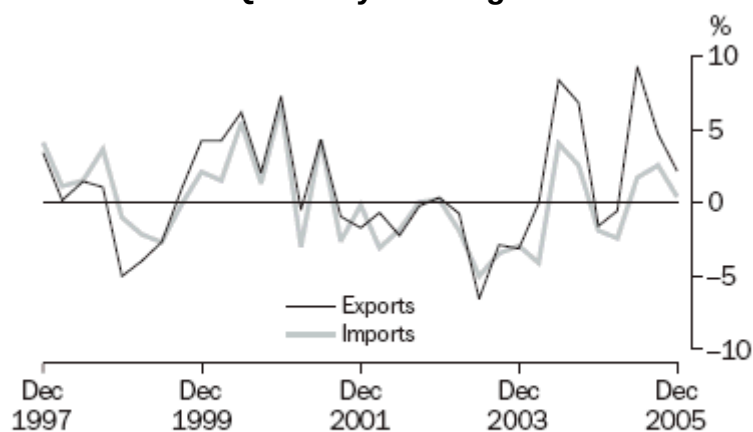


Source: Producer Price Indexes, Australia, cat. no. 6427.0.

The export price index rose by 2.2% in the December quarter 2005 (graph 29), following a 4.7% increase in the September quarter 2005. The increase this quarter was driven by price rises for gold, coal, alumina, aluminium, wheat, sugar and manganese ores and concentrates. The most significant offsetting price decrease was observed for exports of crude petroleum oils, reflecting lower world prices following two quarters of substantial price increases. There was also an offsetting price decrease for edible offal.

The import price index rose by 0.4% in the December quarter 2005 (graph 29). Crude and other petroleum oils were the main contributors to the increase, due to the lag in imports of crude and other petroleum oils reacting to changes in global prices. The most significant offsetting price decreases were observed for imports of medicaments and diesel.

29 EXPORT AND IMPORT PRICE INDEXES, Quarterly %change

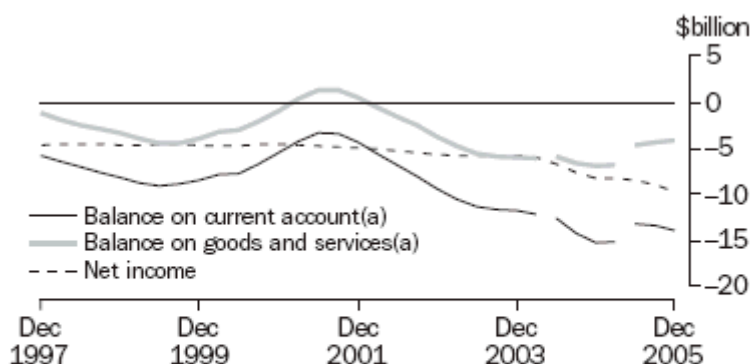


Source: International Trade Price Indexes, Australia, cat. no. 6457.0.

INTERNATIONAL

Australia's current account deficit (trend estimate), which measures trade in goods and services, receipts and payments of income and current transfers, increased to \$13.9b in the December quarter 2005 from \$13.4b (revised) in the September quarter (graph 30). The main contributors to the increase in the deficit were goods imports (debits), which rose \$1.1b (3%), and income payments (debits), which rose \$0.7b (5%). These were partly offset by an increase in goods exports (credits) of \$1.3b (4%). In the December quarter, the overall prices of Australia's export commodities continue to rise, with an increase of 2% for rural goods and an increase of 2.5% for non-rural goods. Unlike in the September quarter, the volumes of non-rural goods exports increased in the December quarter, by 4.3% (seasonally adjusted). The trend estimate of the net income deficit rose \$0.7b (7%) to \$9.6b.

30 CURRENT ACCOUNT, MAIN AGGREGATES, Current prices, Trend



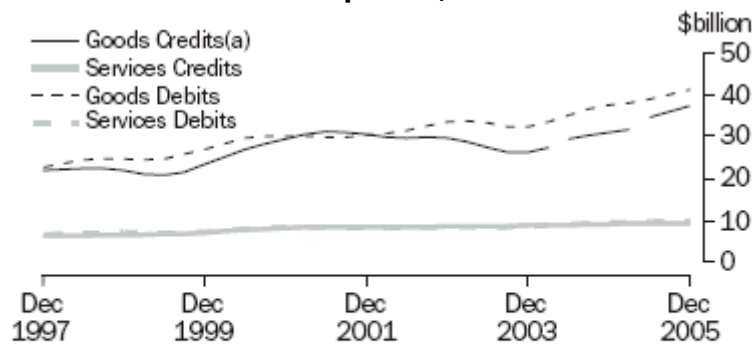
(a) Trend break was applied to June Quarter 2004 and June Quarter 2005

Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

Australia's goods and services deficit (trend estimate) narrowed in the December quarter 2005, decreasing \$143m from \$4,291m in the September quarter to \$4,148m in the December quarter (graph 30). Imports of goods (debits) rose \$1,108m (3%) to \$41,007m in the December quarter 2005, with the largest increase in capital and intermediate & other merchandise goods. Exports of goods (credits) rose \$1,283m (4%) to \$37,254m, with the largest increase in non-rural goods, up \$1,145m (4%) (graph 31). The trend estimate of net services was a deficit of \$395m, a rise of

\$32m (9%) on the September quarter 2005 deficit of \$363m.

31 BALANCE OF PAYMENTS, GOODS AND SERVICES, Current prices, Trend

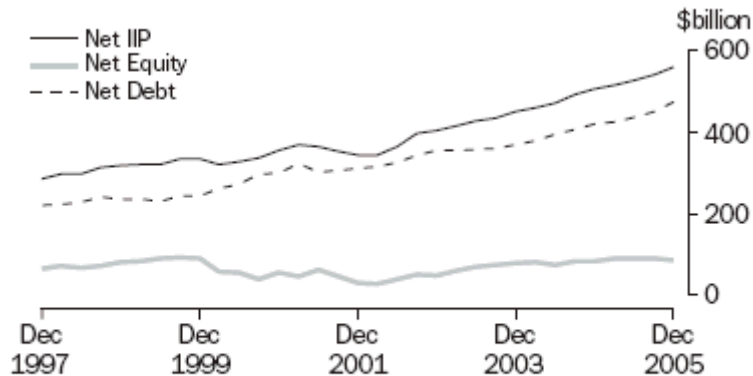


(a) Trend break was applied to June Quarter 2004 and June Quarter 2005.

Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

Australia's net international investment position rose \$18.7b (3.4%) to a net foreign liability of \$560.2b at 30 December 2005. Net debt liabilities rose \$22.4b (5.0%) to \$472.8b. This comprised net debt raisings of \$16.0b, exchange rate changes of \$6.0b and price changes of \$0.5b. Net equity liabilities fell \$3.7b (4.1%) to \$87.3b (graph 32), reflecting exchange rate changes of –\$5.6b, transactions of –\$2.1b, and other adjustments of –\$0.3b. Partially offsetting these decreases were price changes of \$4.2b.

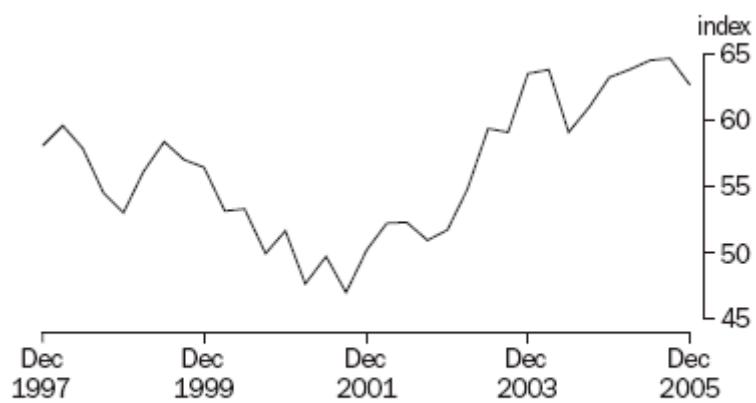
32 INTERNATIONAL INVESTMENT POSITION, Levels at end of period



Source: Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.

Graph 33 shows the Trade Weighted Index (TWI) of the value of the \$A. In the December quarter 2005 the quarterly average TWI decreased to 63.80 (from 64.20 in the previous quarter). The period average exchange rate for the Japanese yen rose to 87.27 per \$A (from 84.50 in the previous quarter), and the period average exchange rate for the United States dollar fell to 74.41 per \$A (from 75.97 the previous quarter).

33 TRADE WEIGHTED INDEX OF VALUE OF THE \$A, Quarterly Average, May 1970=100



Source: *Balance of Payments and International Investment Position, Australia, cat. no. 5302.0.*

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